

CITY OF SPOKANE
Spokane County, Washington
January 1, 1994 Through December 31, 1994

Schedule Of Findings

1. Internal Controls Over Cash Receipts At The Spokane Public Library Should Be Improved

During our audit of Spokane Public Library, which had reported local receipts of \$188,000, we noted the following internal control weaknesses in the cash receipting system:

- a. Access to the cash register was not restricted. Since several employees operated the same cash register, responsibility for funds could not be fixed.
- b. Check and cash composition of receipts was not indicated on the cash register tape. This information is essential in providing an audit trail.
- c. There was a lack of segregation of duties between the issuance of the refunds and the return of the materials. We were unable to ensure that returned materials actually supported money removed from the register.
- d. No reconciliation of library cards (bar codes) issued to funds collected was performed. As a result, we could not determine if amounts collected were deposited in city accounts.
- e. Fines/fees collected could not be reconciled to payments posted to patron accounts.
- f. There was a lack of segregation of duties between the assessment of book damages and the cash receipting function. In addition, assessments were not controlled nor reconciled to receipts or patron accounts.
- g. Evidence of supervisor approval on cash register error worksheets was not consistently noted.
- h. Funds were not transmitted from the branches to the main library in locked or tamper-proof bags. This placed public funds at unnecessary risk.

A basic principle of internal accounting controls requires the segregation of duties relating to the custody of assets from the responsibility for maintaining the related records of accountability.

Library management has implemented some internal controls over the cash receipting system. However, the director appeared reluctant to strengthen these controls within available resources.

Weaknesses in the cash receipting internal control system result in decreased accountability over cash receipts and an increased risk that errors and/or theft could occur

and not be detected in a timely manner, if at all.

We recommend that the library strengthen internal controls over the cash receipting system in the following ways:

- a. Restrict access to the cash register so that responsibility for receipts can be fixed.
- b. Note cash and check composition on the register tape. In addition, this information should be reconciled to the bank deposit.
- c. Segregate the duties of issuing refunds and confirming that the materials are returned.
- d. Reconcile library cards (bar codes) issued to funds collected by maintaining separate number series and by performing an inventory. At a minimum, this should be done for the nonresident cards (bar codes).
- e. Separately identify fine/fee revenue sources so that a reconciliation of collections and payment posting to patron accounts can be performed.
- f. Segregate the duties of assessing book damages and collections.
- g. Require supervisory review and approval of cash register error worksheets.
- h. Transmit funds in locked or tamper-proof bags.

2. Internal Controls Over Accounts Receivable At The Spokane Public Library Should Be Improved

During our audit, we noted the following internal control weaknesses in the accounts receivable system:

- a. Staff accounts were coded so that they were not assessed fines and fees like the general public. This represents a gift of public funds. The ability to assign this staff code was not restricted nor were accounts utilizing the staff code reviewed.
- b. A control account was not maintained nor reconciled for \$7,425 in recorded accounts receivable. This receivable system processes in excess of \$150,000 a year.
- c. Although employees waived fines and fees, the library board had not adopted a formal policy. Detail of the accounts and amounts waived was not maintained, reconciled, reviewed, nor approved. In addition, the ability to waive fines and fees was not restricted.

Article VIII, Section 7 of the Washington State Constitution states:

No . . . city . . . shall hereafter give any money, property, or loan its money, or credit to or in aid of any individual

The library director appeared to feel that strong internal controls could not be implemented with available resources. The lack of controls over the accounts receivable system increases the risk that errors and/or theft could occur and not be detected in a timely manner, if at all.

We recommend that the library strengthen internal controls over the accounts receivable system in the following ways:

- a. Discontinue and restrict access to the use of the staff code.
- b. Establish and periodically reconcile an accounts receivable control account.
- c. Adopt a policy on waiving fines and fees. Maintain, reconcile, review and approve a detail of accounts and amounts waived. Restrict access to the ability to waive fines and fees.

3. Internal Controls Over Cash Receipts At Riverfront Park Should Be Improved

During our review of cash handling procedures at Riverfront Park, we noted the following internal control weaknesses:

- a. There is no timely reconciliation between sales and cash deposited. Riverfront Park collects in excess of \$2 million a year.
- b. There is no timely reconciliation of the change fund to the authorized balance. At the time of our review we noted that the change fund was \$6,000 over the authorized balance (amount of change fund was \$18,000 which is only the authorized balance for three holiday weekends out of the year). Additionally, there was \$1,305 of unaccounted for money over and above the \$18,000 cash on hand.
- c. Receipts from the daily sales are not being deposited daily. Riverfront Park generally deposits two times weekly. Considering the high volume of daily receipts, good internal controls require daily bank deposits.

The Washington State Constitution, Article XI, Section 15, states in part:

All moneys, assessments and taxes belonging to or collected for the use of any county, city, town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depositary

In addition, RCW 43.09.240 states in part:

. . . Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours

Parks department management has not implemented strong internal controls over the Riverfront Park cash collection process.

The weaknesses noted above result in decreased accountability over cash receipts and an increased risk that errors and/or theft could occur and not be detected in a timely manner, if at all.

We recommend that the parks department:

- a. Reconcile sales to cash receipts/deposits timely.
- b. Maintain the change fund at the authorized balance consistently.
- c. Make daily deposits in accordance with applicable laws.

4. The City's Transportation Department Should Strengthen Controls Over Cash

- a. The city's transportation department charges customers for photo copies, traffic flow maps, parking meter bags, loading zone permits, and parking. During our examination of the transportation department's cash handling procedures, we noted the following weaknesses:

- (1) There is inadequate segregation of duties in receipting.
- (2) There is no cash accountability between clerks.
- (3) Cash is not reconciled to sales. Total receipts for 1995 were more than \$47,500. Total sales are not readily available.
- (4) Deposits with the city treasurer were usually made one or two times per month.
- (5) There is no direct review of the cash receipting work that the senior clerk is performing.
- (6) It is not possible to reconcile the cash and check composition of daily receipts because mode of payment is not shown on one of the several receipt forms used.
- (7) The department is using Rediform receipts. This is a generic type of receipt book that is readily available in the public sector and lacks control of receipt numbering.

Because of weaknesses listed above, we believe the transportation department's cash receipting system currently in use for sales to customers cannot be relied upon to prevent irregularities and fraud.

The weaknesses listed above exist because management places trust in the integrity of its clerks.

We recommend the department do the following:

- (1) Obtain and use preprinted, prenumbered receipts which identify the department, provide space to identify items sold, and provide a place to indicate the mode of payment.
- (2) Deposit to the city treasurer daily.
- (3) Maintain separate accountability of sales and cash between the clerks.
- (4) Reconcile cash collected to sales daily.
- (5) Establish procedures for receipting and depositing all moneys received.

- b. The transportation department is responsible for collecting parking meter cash. Over \$960,000 was deposited during 1995. During the summer of 1995, the city raised the fees on parking and replaced free parking slots in the downtown core with parking meters.

During our examination of the department's cash handling procedures, we noted

the following:

- (1) There are no controls over the coins removed from city parking meters until the money is counted, bagged, and sealed. From the time coins are removed from a meter until coin bags are picked up by Loomis, fraud or theft could occur without detection.
- (2) There is no internal control over activities of cash collectors.
- (3) The only reliable record of cash collected and counted, the coin machine tape, is not retained.

Based on our understanding of the controls in place on parking meter collections and our audit tests on those controls, we believe the transportation department's parking meter collection activity cannot be relied upon to prevent irregularities or fraud.

We recommend the city's management strengthen internal controls over the parking meter cash collection.

5. The City Should Strengthen Accounting Controls Over Fixed Assets

The city does not maintain detailed records for a significant number of parcels of land in the general fixed asset account group. As the city discloses in Note 16 of the financial statements, the city owns approximately 1,350 parcels of land which are recorded in the general fixed asset account group but are not assigned to any particular fund or department and are not recorded with a dollar value. We were unable to determine cost of the land.

The *Budgeting, Accounting and Reporting Systems* (BARS) manual prescribed by the State Auditor's Office requires cities with a population over 8,000 to account for fixed assets.

Because we were unable to determine the cost of land in the general fixed asset account group, we have qualified our opinion on the city's financial statements.

This condition has been known since the audit of 1983. The city has made some progress in adding land costs to the general fixed asset account group since that time. The city developed a new fixed asset accounting system that went into use in 1991. Since then, buildings, equipment, improvements, and some land parcels have been added to the general fixed asset account group. In January 1995, the city initiated a renewed effort to assign ownership and estimated cost to the approximately 1,350 land parcels identified above.

We recommend the city continue to give priority to the efforts begun in January 1995.